CANADIAN OCCIDENTAL PETROLEUM LTD.

ANNUAL REPORT 1973

CANADIAN OCCIDENTAL PETROLEUM LTD.

DIRECTORS

PAUL A. BAILLY
President, Occidental Minerals Corporation, Wheat Ridge, Colorado

***ROBERT J. CAVERLY**
Executive Vice-President,
Occidental Petroleum Corporation
Los Angeles, California

***DR. ARMAND HAMMER**
Chairman of the Board
and Chief Executive Officer,
Occidental Petroleum Corporation,
Los Angeles, California

***J. HOWARD HAWKE**
Vice-Chairman,
Jannock Corporation,
Toronto, Ontario

JOHN W. JOHNSTONE, Jr.
Group Vice-President,
Hooker Chemicals & Plastics Corp.
Niagara Falls, New York

RONALD P. KLEIN
Vice-President and General Counsel,
Occidental Petroleum Corporation
Los Angeles, California

LEO L. LeCLERC
Industrial Development Co-ordinator,
Edmonton, Alberta

J. ANGUS McKEE
President, J. Angus McKee & Associates Limited,
Toronto, Ontario

A. RUSSELL PATRICK
Retired
Edmonton, Alberta

JOHN M. ROBERTSON, Q.C.
Partner,
Fenerty, McGillivray, Robertson, Brennan, Prowse, Fraser, Bell and Hatch
Calgary, Alberta

***HOWARD B. SHELTON**
Executive Vice-President,
Canadian Occidental Petroleum Ltd.
Calgary, Alberta

***ROBERT A. TEITSWORTH**
Executive Vice-President,
Occidental Petroleum Corporation,
Bakersfield, California

*Member of the Executive Committee

OFFICERS

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Executive Vice-President
and Chief Operating Officer

JOHN J. McLAUGHLIN
Senior Vice-President

ROBERT S. BLACKETT
Vice-President of Exploration and Planning — Oil and Gas Division

GEORGE S. HORNE
Vice-President of Operations — Oil and Gas Division

DAVID BERTRAM
Treasurer-Controller

WILLIAM G. O'ROURKE
Secretary and Counsel

PAUL C. HEBNER
Assistant Secretary

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The Annual General Meeting of the Shareholders of the Company will be held at the Four Seasons Sheraton Hotel, Toronto, Canada on May 6, 1974 at 11:00 a.m.

The cover photograph shows the Westburne—G. P. Drilling Ltd rig #3 drilling for Canadian Occidental in the Alberta Foothills.

IMPORTANT NOTICE

Canadian Occidental Petroleum Ltd.

SUBSEQUENT EVENT — CHANGE IN ACCOUNTING PRINCIPLES

A decision handed down by the Canadian Provincial Securities Administrators on March 29, 1974 will require petroleum companies whose shares are publicly traded to follow the recommendations of the Canadian Institute of Chartered Accountants and provide for deferred taxes on all timing differences between accounting income and taxable income. The shareholders are referred to Note 5 to the audited financial statements contained in the 1973 Annual Report for information as to the Company's former accounting practice relating to deferred taxes.

The recommendations of the Canadian Institute of Chartered Accountants with respect to providing for deferred taxes must be followed for annual and semi-annual financial statements for periods ending March 31, 1974 or later. Accordingly, effective in the first quarter of 1974, the Company will make an accounting change, on a retroactive basis, to provide for all deferred taxes. The following table restates the Company's financial results for the years 1973 and 1972 after making provision for deferred taxes on a retroactive basis:

	Thousands of Dollars*			
	1973		1972	
	As Restated	As Reported	As Restated	As Reported
Net Income before Taxes	$ 7,366	$ 7,366	$ 5,722	$ 5,722
Provision for Income Taxes	3,441	641	2,612	412
Net Income	$ 3,925	$ 6,725	$ 3,110	$ 5,310
Per Share	$ .58	$ 1.00	$ .46	$ .79
Retained Earnings— end of year	$25,235	$38,235	$21,310	$31,510
Cash Flow from Operations	$11,764	$11,764	$ 9,682	$ 9,682
Per Share	$ 1.74	$ 1.74	$ 1.43	$ 1.43

*Except per share values

...GHTS

	1973	1972
. . .	$34,221,000	$28,505,000
. . .	$11,764,000	$ 9,682,000
. . .	$1.74	$1.43
. . .	$ 6,725,000	$ 5,310,000
. . .	$1.00	$ .79
. . .	$11,987,000	$10,753,000
. . .	$31,814,000	$10,225,000
. . .	$21,559,000	$ 175,000
. . .	$78,773,000	$72,048,000

...nding.

. . .	3,645	3,769
. . .	6,752,241	6,752,241
. . .	418	401

...) . . .	832,000	841,000
. . .	19,000,000	19,000,000
. . .	241,000	237,000

...ional Revenue has published a December 22, 1971 ...any.

CANADIAN OCCIDENTAL PE

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*Member of the Executive Committee

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ROBERT A. T
Chairman of
and Chief Ex

DR. ARMAND
Chairman of

HOWARD B.
Executive Vic
and Chief Op

JOHN J. McL
Senior Vice-P

ROBERT S. B
Vice-Presider
Planning —

GEORGE S. H
Vice-Presider
— Oil and Ga

DAVID BERTI
Treasurer-Cor

WILLIAM G.
Secretary and

PAUL C. HEB
Assistant Sec

FINANCIAL AND OPERATING HIGHLIGHTS

	1973	1972
FINANCIAL		
Revenues	$34,221,000	$28,505,000
Cash Flow from Operations	$11,764,000	$ 9,682,000
Per share†	$1.74	$1.43
Net Income	$ 6,725,000	$ 5,310,000
Per share†	$1.00	$ .79
Working Capital	$11,987,000	$10,753,000
Capital Expenditures	$31,814,000	$10,225,000
Long-term Liabilities	$21,559,000	$ 175,000
Shareholders' Equity	$78,773,000	$72,048,000

†Based on weighted average number of shares outstanding.

	1973	1972
SHAREHOLDERS AND EMPLOYEES		
Number of Shareholders	3,645	3,769
Number of Shares Outstanding	6,752,241	6,752,241
Number of Employees	418	401
OPERATING		
Crude Oil and Natural Gas Liquids Production (barrels)	832,000	841,000
Pipeline Gas Sales (thousands of cubic feet)	19,000,000	19,000,000
Sulphur Production (long tons)	241,000	237,000

For Canadian capital gains tax purposes, the Department of National Revenue has published a December 22, 1971 Valuation Day price of $9.13 for the common shares of the Company.

CORPORATE HIGHLIGHTS

IMPROVED FINANCIAL RESULTS

Net income increased 27 percent to $6,725,000 or $1.00 per share. Cash flow from operations increased 22 percent to $11,764,000 or $1.74 per share.

OFFSHORE EXPLORATION

Participating interests ranging from 3.665 percent to 9.165 percent purchased in eleven oil and gas leases in the United States Gulf Coast — offshore Texas for $24.7 million. An active exploratory drilling program is continuing offshore Louisiana and offshore Texas.

CHLOR-ALKALI PLANT EXPANSION

The second major expansion of the North Vancouver chlor-alkali plant in less than two years to increase its production capacity by ten percent.

STRONG PRODUCT DEMAND

Increased sales and improved product prices resulted in increased operating profits for both the oil and gas division and the chemicals division.

SULPHUR PRICE INCREASES

The producer's price for western Canadian sulphur increased significantly after several years of depressed prices on world markets.

TO THE SHAREHOLDERS

We are pleased to report that the company continued to record improved financial and operating results during the past year. Revenues totalled $34,221,000 in 1973, an increase of $5,716,000 over the prior year. Net income was $6,725,000 or $1.00 per share, as compared to $5,310,000 or 79 cents per share in 1972. Cash flow from operations increased to $11,764,000 or $1.74 per share in 1973 from $9,682,000 or $1.43 per share the previous year. These improved financial results reflect the company's broadened earnings base following its reorganization in 1971 and a generally buoyant Canadian economy.

In the company's chemical operations, sales increased by $4,778,000 or 22 percent and net income was up by $927,000 or 20 percent. The most significant increase in sales volume resulted from the additional production capacity at the North Vancouver chlor-alkali plant which went on stream at the beginning of the year. This plant expansion increased production by approximately 20 percent over 1972 levels. The plant operated at maximum capacity throughout 1973. The smaller chlor-alkali plant located at Nanaimo, British Columbia lost nine weeks' production due to labour problems. New two-year labour agreements were negotiated at both chlorine plants.

In July, 1973 the company approved an estimated four million dollar process modification and related ten percent capacity expansion at North Vancouver to be completed by August, 1974. This project eliminates the use of lead and graphite in the plant and their associated ecological problems. All of the additional caustic and chlorine from this expansion is committed to long-term pulp mill sales contracts.

Although the company's plastics and metals finishing operations are substantially smaller in scope than the electro-chemical operations, their contributions in 1973 were significant. The plastics and resins division generated a modest profit after having had a net loss in its first two years of operation. The metal finishing division doubled its net income in 1973 as compared to 1972.

The oil and gas division recorded increased sales revenues and net income, due primarily to the higher selling prices received for all of its petroleum products. The field price of

western Canadian crude oil increased by 20 cents per barrel on January 10, 1973, by 25 cents per barrel on May, 1, 1973 and by 40 cents per barrel on August 1, 1973. During the same period, the selling price of condensate increased by a total of $1.06 per barrel.

There were small increases in the selling price of natural gas due to the normal price escalation clauses in the company's gas sales contracts. In addition, the company was successful in negotiating year end price increases under these gas sales contracts to offset its share of the forecast capital and operating costs of a $3.8 million environmental control facility to be installed at the Petrogas plant.

Although world sulphur prices had fallen from mid-1968 through 1972, a marked improvement was experienced in 1973. In January, 1973, the company initiated a modest sulphur price correction to $9.00 per ton for sulphur sold in the North American market. This was followed by two further three dollar per ton price increases in August and December, 1973. In March, 1974, the company announced a further five dollar per ton increase to establish a sulphur price to North American customers of $20.00 per ton f.o.b. western Canada producing points.

Notwithstanding the fact that the Canadian producer received improved selling prices for its petroleum products last year, there is great uncertainty as to what impact recent government regulatory action will have on Canada's petroleum industry. During the period of September 1, 1973, to March 31, 1974, the Canadian government imposed a voluntary price freeze on refined petroleum products and heating oil, and this in turn froze the producer's price for crude oil and condensate. During the same period, the Canadian government levied an export tax on crude oil which escalated from 40 cents per barrel in September, 1973, to $6.40 per barrel in February, 1974. Although the governments of the oil producing provinces have been carrying on negotiations with the federal government as to future petroleum pricing policies, to the date of this report there has been no official announcement as to what alterations will be made in the price freeze and export tax after March 31, 1974.

The Alberta government recently created a Petroleum Marketing Commission to market most crude oil produced in the province. The government of Saskatchewan has also taken steps to regulate the selling price a producer receives for its crude oil. This increased government involvement in the pricing of petroleum products has caused industry concern as to the extent to which any further increases in the value of petroleum and natural gas will benefit the producer. It is to be hoped that the western Canadian producing provinces and the government of Canada will soon reach an accord with respect to future petroleum pricing policies and that such policies will provide the incentive necessary for the industry to pursue the aggressive exploratory programs required to meet Canada's future energy requirements.

This annual report describes the company's exploration activity in the United States Gulf Coast — offshore Louisiana and offshore Texas. The company's decision to extend its exploration effort to the Gulf of Mexico was made in September, 1972, prior to the current energy shortage and prior to the enactment of massive legislation by the federal and provincial governments affecting all segments of the petroleum industry in Canada. It was this company's intention in September, 1972, and is still its intention, to maintain a balanced domestic and foreign exploration program. However, the current price freeze on petroleum products and higher royalty rates in Canada are presently encouraging many Canadian oil and gas companies to channel a larger portion of their exploration budgets for exploratory drilling outside Canada.

On behalf of the board of directors, we wish to thank the small but hard-working staff of employees who contributed significantly to the improved financial and operating results of the company during the past year.

Respectfully submitted,

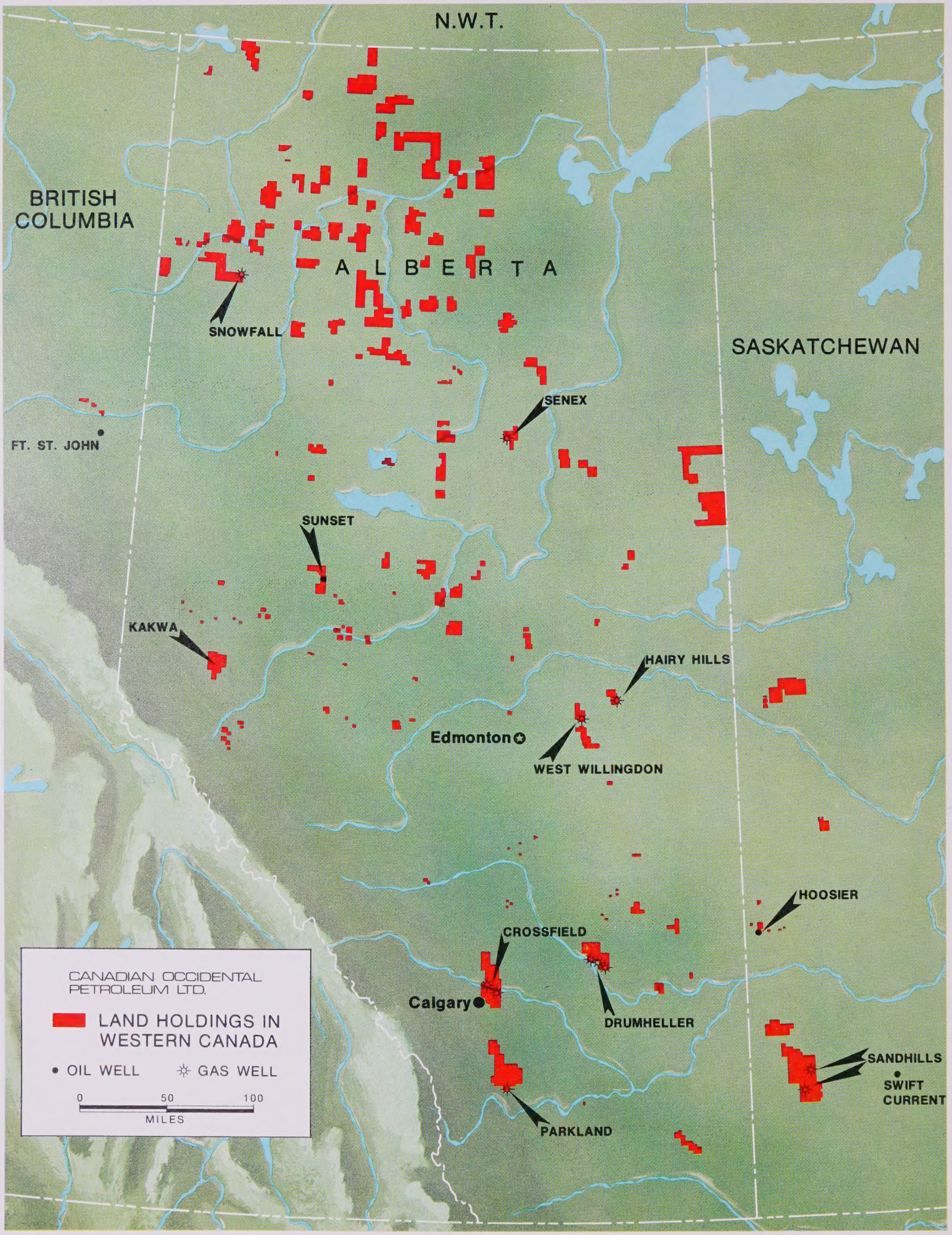
Robert A. Teitsworth

Robert A. Teitsworth
Chairman of the Board and President

Howard B. Shelton

Howard B. Shelton
Executive Vice President

Calgary, Alberta
March 21, 1974.


N.W.T.
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
SNOWFALL
FT. ST. JOHN
SENEX
SUNSET
KAKWA
HAIRY HILLS
Edmonton
WEST WILLINGDON
HOOSIER
CROSSFIELD
Calgary
DRUMHELLER
SANDHILLS
SWIFT CURRENT
PARKLAND
CANADIAN OCCIDENTAL PETROLEUM LTD.
LAND HOLDINGS IN WESTERN CANADA
OIL WELL
GAS WELL
0
50
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MILES

OIL AND GAS OPERATIONS

Land

The company's most important acquisition in recent years occurred on July 19, 1973 when a wholly-owned subsidiary completed the purchase of participating interests ranging from 3.665 percent to 9.165 percent in eleven oil and gas leases offshore Texas. (See map on page 7). The company and its partners were successful bidders for these leases at the Federal Lease Sale held in New Orleans, Louisiana on June 19, 1973.

At this highly competitive lease sale, 104 oil and gas leases were sold to various bidding groups for purchase prices totalling approximately $1.6 billion. The total bonus cost of the eleven leases purchased was approximately $427 million, of which your company's share was $24.7 million.

These leases cover a total of 61,946 acres located in the South Extension of the High Island Area, offshore Texas. In September, 1973, the participants commenced an active exploratory program on these leases which is described in the exploration section of this annual report.

The following table shows the company's land holdings by area at December 31, 1973, with comparative figures for 1972.

	1973		1972	
	Gross	Net	Gross	Net
Alberta (Note a)	4,657,980	4,177,872	4,604,796	4,168,658
Saskatchewan (Note b)	616,773	181,957	758,030	414,128
British Columbia	8,929	3,700	8,929	3,700
Arctic (Notes b & c)	391,993	215,999	536,679	333,414
Northwest Territories	—	—	59,968	29,984
East Coast Offshore (Note d)	704,338	—	704,338	—
Louisiana Offshore	2,648	530	2,648	530
Texas Offshore	61,946	3,566	—	—
	6,444,607	4,583,624	6,675,388	4,950,414

Notes: (a) includes reservations of which approximately 50 percent may be retained as leases.

(b) includes permits of which approximately 50 percent may be retained as leases.

(c) the gross acreage includes 175,994 acres in which the company owns a three percent gross overriding royalty.

(d) the company's interest in the 704,338 acres in the East Coast is a 1.75 percent gross overriding royalty.

The slight reduction in acreage from last year resulted from the conversion of permits and reservations to lease under government regulations, the surrender of acreage following geological and geophysical evaluation and the transfer of lands to other companies in return for their drilling, at no cost to your company, a total of 24 wells on company lands.

Exploration

1973 was an active year with the company concentrating its oil and gas exploration in the Western Canadian Sedimentary Basin and offshore the United States Gulf Coast. The company participated directly in the drilling of 19 exploratory wells, of which eleven were in western Canada and eight in the Gulf of Mexico. Another 24 wildcat wells drilled by other companies under various option agreements and farmouts assisted in the evaluation of company lands.

Canada

Of the eleven exploratory wells drilled in western Canada, in which the company participated, nine were drilled in Alberta and two in Saskatchewan.

Five of the Alberta exploratory wells tested the deeper Devonian Reef formations of west-central Alberta. This drilling resulted in one oil discovery in the Sunset Area of west-central Alberta. During flow testing, in the winter months of early and late 1973, the well produced non-commercial quantities of water-free, light gravity oil from the Devonian Beaverhill Lake formation. Additional drilling is planned for 1974 on adjacent lands to determine the commercial feasibility of field development.

Four wildcat wells were drilled to test for possible gas accumulations in the shallow Cretaceous formations of southeastern Alberta. One well in the Hairy Hills region, in which your company has a 50 percent interest, was cased as a Cretaceous gas discovery. The other three shallow wells were dry and abandoned.

Your company had a 50 percent participation in two exploratory wells drilled on the Sandhills Block, in southwestern Saskatchewan. One of

these wells was cased as a Cretaceous Milk River zone gas discovery and the other well was abandoned.

Of the 24 exploratory wells drilled by others on or adjacent to our lands in western Canada, nine have been completed as potential gas wells and are suspended. Two Cretaceous Milk River zone gas wells were drilled on a small portion of our Sandhills acreage in southwestern Saskatchewan in which the company has retained a royalty interest. Three shallow Cretaceous gas wells were completed on our Drumheller Block in southeastern Alberta in which the company retains a 25 percent interest. In lands associated with the four remaining Alberta discoveries, your company has retained 50 percent interests at West Willingdon, near Edmonton, and at Snowfall, in the northwestern part of the Province; a 25 percent interest at Senex, in northeastern Alberta; and a 15 percent gross overriding royalty at Parkland, south of Calgary.

During the year, detailed seismic and geological studies were completed on our 94,000 acre Kakwa Block in the Foothills area of Alberta and plans were made to drill a 17,000 foot test of the Upper Devonian Reef. This reservation was purchased by the company in 1969 for $2.7 million and is 100 percent-owned. Early in 1974, when the Government of Alberta published its new royalty rates on natural gas, it also announced a new Exploratory Drilling Incentive Scheme to be effective for wells started after January 1, 1974. This program is particularly attractive for qualifying deep wells in the Foothills area for which substantial drilling incentive credits are obtainable. Since our Kakwa well qualifies for full drilling incentive credits, a drilling rig was moved onto the site prior to year end and commenced drilling in early January, 1974. This deep test will take about eight months to drill at an estimated cost of $1.7 million, against which the company will recover a drilling incentive credit of approximately $900,000 from the Crown.

An extensive geophysical exploration program was commenced in the fall of 1973 to develop exploration prospects in the Cretaceous and Paleozoic formations of the tectonically disturbed Peace River Arch of west-central Alberta. At least one of these prospects will be drilled in 1974.

United States — Gulf of Mexico

The tempo of the company's exploratory activity in the Gulf of Mexico waters increased during the year. The drilling program initiated on Block 78, offshore Louisiana, in 1972 was markedly expanded with the drilling of seven exploratory wells on the off-shore Texas blocks in the fall of 1973. This drilling program was continuing actively at the end of the year with two evaluation wells drilling on the offshore Louisiana block and two other wells drilling on the offshore Texas blocks.

These wells are being drilled by other companies on behalf of your company and its partners for preliminary geological evaluation of the tracts prior to possible design and construction of permanent drilling and production platforms. Generally speaking, several wells will have to be drilled on each block to adequately evaluate the commercial presence of oil and gas. Furthermore, on several blocks the drilling results are highly confidential because offsetting tracts have been posted for sale at federal lease sales to be held in March and May, 1974. The strong market demand for natural gas, natural gas liquids and crude oil in the United States, at attractive wellhead prices, is a major stimulant to exploratory activity in the Gulf.

Offshore Texas

The map on page 7 shows the company's offshore Texas tracts, its participating interest in them and the location of wells drilled to December 31, 1973.

The first well in the program was spudded on Block A-442 on September 19, 1973 and reached a total depth of 8,500 feet after having penetrated minor gas sands. A second well on this block commenced drilling at year end.

The first well on Block A-474 reached a total depth of 5,230 feet on October 27, 1973. Based on encouraging gas and oil shows in this well, your company joined with the owners of the westerly offsetting Block A-475 in drilling a test located "on the line" between the two blocks. The company contributed 2.25 percent of the cost of the No. 1 well on Block A-475 but has no working interest in the block. A second well on Block A-474 reached a total depth of

CANADIAN OCCIDENTAL PETROLEUM LTD.

UNITED STATES GULF COAST

Canadian Occidental Leases

Gas Fields

8,806 feet on November 15 and a third well on the block, spudded on December 17, was drilling below 7,400 feet at year end. The company agreed to participate in the drilling of a second well on Block A-475 which commenced in January, 1974.

The company and its partners drilled three wells on Block A-273 in December, 1973, encountering gas shows.

A well on Block A-330 was at a depth of 10,124 feet at year end. The results so far in this well are encouraging, and the drilling rig was to be moved to a second site on Block A-330 early in 1974.

The company's exploratory drilling program is financially supported by a $1.6 million advance payment received under an agreement with the Transcontinental Gas Pipe Line Corporation (Transco). This agreement provides for a further advance of up to $600,000, if required, which is expected to cover our share of the cost of all planned exploratory drilling offshore Texas. The agreement also provides for further advances to cover our share of development costs, including permanent drilling and production platforms and developmental wells. Both the exploration advances and development advances are interest-free but subject to repayment out of the proceeds of production within five years from the start of production. If natural gas is not found on the leases in a quantity sufficient to warrant developmental drilling, the exploration advances are repayable over a five-year period commencing upon completion of the exploratory program. In consideration for these advances, the company has agreed to sell to Transco its share of gas to be produced from the off-shore Texas leases at the highest prices obtainable under long-term gas purchase contracts in the offshore Texas area at the time a permanent drilling and production platform is set on location.

Offshore Louisiana

Your company, as a 20 percent working interest participant in Block 78 located in the South Pass Area of offshore Louisiana, completed the drilling of the discovery well on the block on April 21, 1973, at a total depth of 14,893 feet. Gas accumulations of commercial significance were penetrated in the well. Two further exploratory wells were spudded on the block in late 1973. These are located to test the areal extent of the gas pools and to evaluate tracts offsetting Block 78 which are expected to be posted for sale at a future federal lease sale.

Negotiations are underway with a major gas transmission company for an advance payment agreement under which substantial funds would be advanced to cover our share of exploration and development costs on Block 78. The provisions of any such agreement would be similar to the advance payment agreement on our offshore Texas leases.

Production and Development

As can be seen from the accompanying table, the production levels for all products approximately equalled those of the prior year. The company's working interest share of production averaged 52 million cubic feet per day of natural gas, 1,350 barrels per day of natural gas liquids, 920 barrels per day of crude oil and 660 long tons per day of sulphur.

Production	1973	1972
Sulphur (long tons)		
Petrogas plant	163,516	165,393
Peace River plant	72,831	66,402
Other plants	4,769	5,597
	241,116	237,392
Pipeline gas (millions of cubic feet)	19,043	18,966
Propane (barrels)	134,350	123,325
Butanes (barrels)	112,784	97,797
Condensate (barrels)	247,311	255,097
Crude oil (barrels)	337,259	364,632

Most of the pipeline gas, natural gas liquids and sulphur production was derived from the Crossfield field where the company operates three units comprising over 50 wells. The company has working interests of 35.02 percent, 23.23 percent and 37.73 percent, respectively, in these units known as the Calgary Crossfield Unit, the Calgary Elkton Unit and the Calgary Basal Quartz Unit. Two wells were drilled in the field during the year, and an existing well was completed for dual production from a heretofore cased-off horizon. These additional wells have enabled the field to maintain deliveries of field gas to the Petrogas gas processing plant at gas contract demand levels.

The jack-up rig Marlin No. 3 drilling on the company's offshore Louisiana lease at the year end.

A gas well was drilled as part of a development program in the Hairy Hills area of Alberta. This field is currently shut in awaiting approval of additional gas export permits and the attendant incentive for further developmental drilling.

The company's crude oil production is derived mainly from oil fields in the Province of Saskatchewan. Of five developmental wells drilled in the Hoosier area, four were completed for production of heavy crude oil and one was abandoned. The Hoosier units are under water-flood in order to sustain high production levels despite the difficult reservoir problems associated with the production of this type of heavy crude.

The company participated in the drilling of a successful step-out oil well at Willmar, Saskatchewan, which augmented existing production.

Reserves

The company's working interest share of reserves, before deduction of royalty interests, were estimated by company engineers to be as follows as of the year end:

Pipeline gas — 291 billion cubic feet of proven reserves after accounting for 19.0 billion cubic feet of production for the year. Probable additional reserves are estimated at 13 billion cubic feet.

Natural gas liquids — 4,722,000 barrels of proven reserves after accounting for 494,400 barrels of production for the year. Probable additional reserves are estimated at 220,000 barrels.

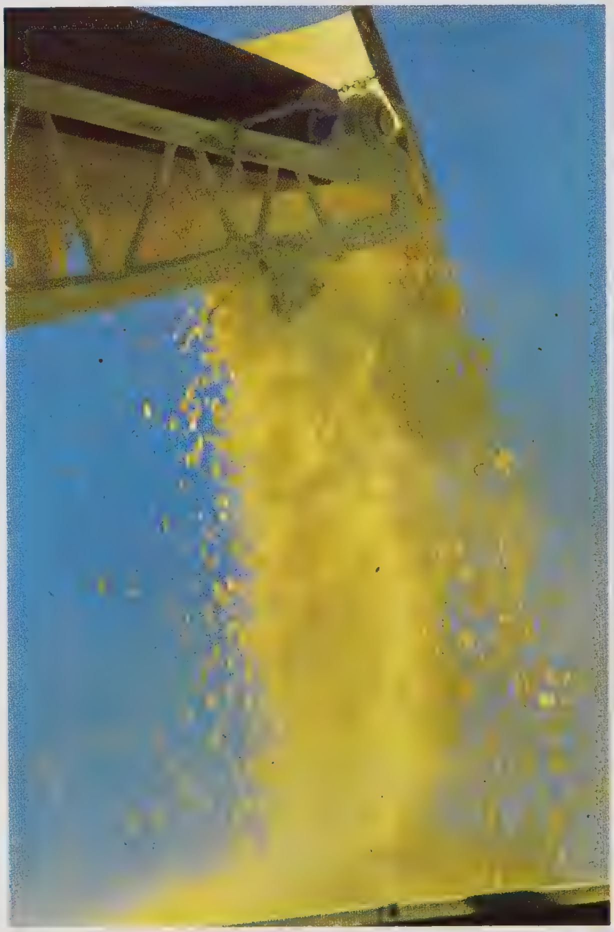
Crude oil — 2,533,000 barrels of proven reserves after accounting for 337,300 barrels of production for the year. Probable additional reserves are estimated at 1,255,000 barrels.

Sulphur — 3,153,000 long tons of proven reserves after accounting for 168,300 long tons of production for the year. Probable additional reserves are estimated at 100,000 long tons. These figures are exclusive of sulphur production at our Peace River plant where 72,831 long tons were produced during the year from gas delivered to the plant by a third party.

The reserves of pipeline gas include the addition of 32 billion cubic feet of new reserves resulting from the company's gas discoveries during the year.

Gas Processing Plants

Gas processing and sulphur recovery operations of the company are carried out at the Petrogas Processing Ltd. plant near Calgary, Alberta, and at our wholly-owned Peace River plant at Taylor, British Columbia. The company owns a 30.9 percent interest in, and is manager-operator of, the Petrogas plant which processes raw field gas produced from the Crossfield field. The plant has the capacity to process more than 300 million cubic feet per day of raw field gas and is



Loading sulphur slates at Petrogas plant.

capable, on demand, of producing over 200 million cubic feet per day of pipeline sales gas and 1,500 long tons per day of sulphur as well as substantial volumes of natural gas liquids.

Although the plant has been operating at a relatively high sulphur recovery efficiency level and without any apparent adverse effect on the surrounding environment, the Energy Resources Conservation Board denied the application of Petrogas Processing Ltd. for an exemption of its plant from the Province's sulphur recovery efficiency guidelines. The effect of the order is to require the Petrogas plant to install a tail gas clean-up facility this year in order to increase its sulphur recovery efficiency from about 97 percent to the stringent provincial government standard of 98 percent. This tail gas plant will cost an estimated $3.8 million and such cost will ultimately be recovered by Petrogas Processing Ltd. from the field gas producers who are charged a processing charge proportionate to their utilization of the gas processing facilities. Your company, as manager-operator of the Petrogas plant, was successful in negotiating gas price increases from the two gas transmission companies purchasing pipeline gas from the plant. These price increases are expected to cover the forecast capital and operating costs of the tail gas plant.

The Peace River plant at Taylor, British Columbia, recovers sulphur from the acid gas feedstock supplied by an adjacent plant which processes gas from various fields in the Fort St. John area of British Columbia. Our plant achieved a record level of sulphur production during the year, averaging 200 long tons per day.

The company also owns small participating interests in the gas plants which process field gas produced from the Wimborne and East Crossfield fields in Alberta. Our share of sulphur production from these plants totalled 4,984 tons during the year.

A new labour contract for the Petrogas plant was reached by mutual agreement for a 31 month term expiring January, 1976. Following a short work stoppage at the Peace River plant, the parties agreed to binding arbitration by a government appointed Industrial Inquiry Commissioner. The contract terms, which have now been settled by the Commissioner, will remain in effect for a two year period expiring September, 1975.

Sulphur Sales

The firming trend in the sulphur market, noted in last year's annual report, became more pronounced during 1973. In recognition of the improving market conditions, your company initiated a modest price adjustment in January, 1973, to establish a posted price of $9 per long ton for Canadian sulphur in the North American market. This initial pricing adjustment was followed by two additional price increases in August and December to establish a year-end sulphur price of $15 per long ton, f.o.b. producing point.

The company's marketing efforts and volume growth were restricted to some degree by transportation disruptions during the year. Extensive spring flooding in the mid-western section of the United States, the longshoremen's strike in Vancouver and the prolonged national rail strike in Canada, all interfered with deliveries to sulphur customers and resulted in subsequent traffic congestion over the various railroad systems.

The offshore sulphur market improved in 1973 primarily due to increased demand by the fertilizer industry. Since sulphur demand is closely related to fertilizer production, the current buoyant fertilizer market throughout the world should continue to benefit sulphur producers. Your company, with substantial inventories adjacent to existing transportation systems, should be in an excellent position to profit from any further improvements in the sulphur market.

The accompanying table indicates the sulphur sales with comparative data from the previous year.

Company's Share of Sulphur Sales (long tons)

	1973	1972
Petrogas plant	136,999	120,243
Peace River plant	54,162	50,560
Other plants	4,984	5,677
TOTAL	196,145	176,480
Distribution		
North American sales	97,882	108,579
Offshore sales	98,263	67,901

On July 23, 1973, the United States Treasury Department announced that this company has been excluded from the department's determination that Canadian elemental sulphur is being, or is likely to be, dumped on the United

States' markets. This decision followed an investigation carried on by the Treasury Department since January, 1972. The Treasury Department stated the reason for this company's exemption is that 100 percent of Canadian Occidental's export sales to the United States have been made at no less than fair value. Consequently, the subsequent decision of the United States Tariff Commission that there is a likelihood of the domestic industry being injured by the dumping of Canadian sulphur did not apply to this company. As a result, Canadian Occidental's sulphur shipments to the United States will not be subject to special dumping duties.

Minerals Division

The following table summarizes the acreage held by the mineral division in various parts of Canada:

	Percentage Interest	Acres
Yukon	100 %	39,544
	9.5%	14,248
British Columbia	100 %	12,276
Saskatchewan	100 %	1,170
New Brunswick	100 %	4,920
	7.4%	1,480

During the summer, evaluation work was carried out on eleven groups of mining claims which had been staked the prior year in the Dawson Range, Yukon. Further work is required on some of these claims to complete our assessment of their base metal potential.

A regional survey was completed covering 3,685 square miles in southern British Columbia in an attempt to locate porphyry-type copper deposits. Based upon the survey, 153 mineral claims were staked for preliminary evaluation next summer. In addition, the company completed its surveys and test drilling upon a copper-molybdenum mineralization with uneconomic results. Also in British Columbia, the company acquired a gold placer deposit and is currently carrying out further studies to determine the economic merit of the deposit.

Ground geophysical surveys and drilling were completed, with negative results, on one of the two permits held in Saskatchewan. Work on the second permit is scheduled to be completed next winter. Test drilling on two properties in New Brunswick intersected uneconomic sulphides. Active exploration programs are planned in six provinces across Canada for 1974.

Using Jetranger helicopter to stake mining claims in southern British Columbia at 7000 foot elevation.

CHEMICAL OPERATIONS

Hooker Chemicals Division

More than 90 percent of the production from the company's two chlorine and caustic soda plants at North Vancouver and Nanaimo, British Columbia is sold to major westcoast pulp mills under multi-year contracts. These sales contracts provide for price escalations to cover increased labour, power, salt and fuel costs.

The caustic soda and chlorine is supplied to the company's pulp mill customers for use in the processing and bleaching of wood pulp. The bleached wood pulp, in turn, is used domestically in the manufacture of newsprint or exported to world markets for further processing into paper products or synthetic fibres. The market demand for caustic soda and chlorine strengthened in late 1972 and continued at increasingly high levels throughout 1973 and into 1974. A 20 percent overall gain in chlor-alkali sales and net profits was achieved by the company during the year.

Following completion of the North Vancouver plant expansion in December, 1972, the plant operated at its full capacity during the year in order to meet sales contract commitments. In July, 1973, your directors approved a major process conversion of the electrolytic cells from consumable graphite anodes to dimensionally stable metal anodes at a cost of approximately four million dollars. This conversion eliminates the use of lead and other undesirable contaminants and improves efficiency in the use of electrical energy. As a result, production capacity of the plant will increase by over ten percent when the conversion is completed in August, 1974. All of this additional production will be used to meet the sales volume under the company's current sales contracts.

The company's barges, Metlakatla and Hyak King, operated at a satisfactorily high usage rate throughout the year. The barges delivered approximately 255,000 tons of caustic soda and chlorine to the company's pulp mill customers and also carried 18,000 tons of revenue cargo. Eight new rail tank cars were placed in service during the year to meet customer demand for increased product shipments.

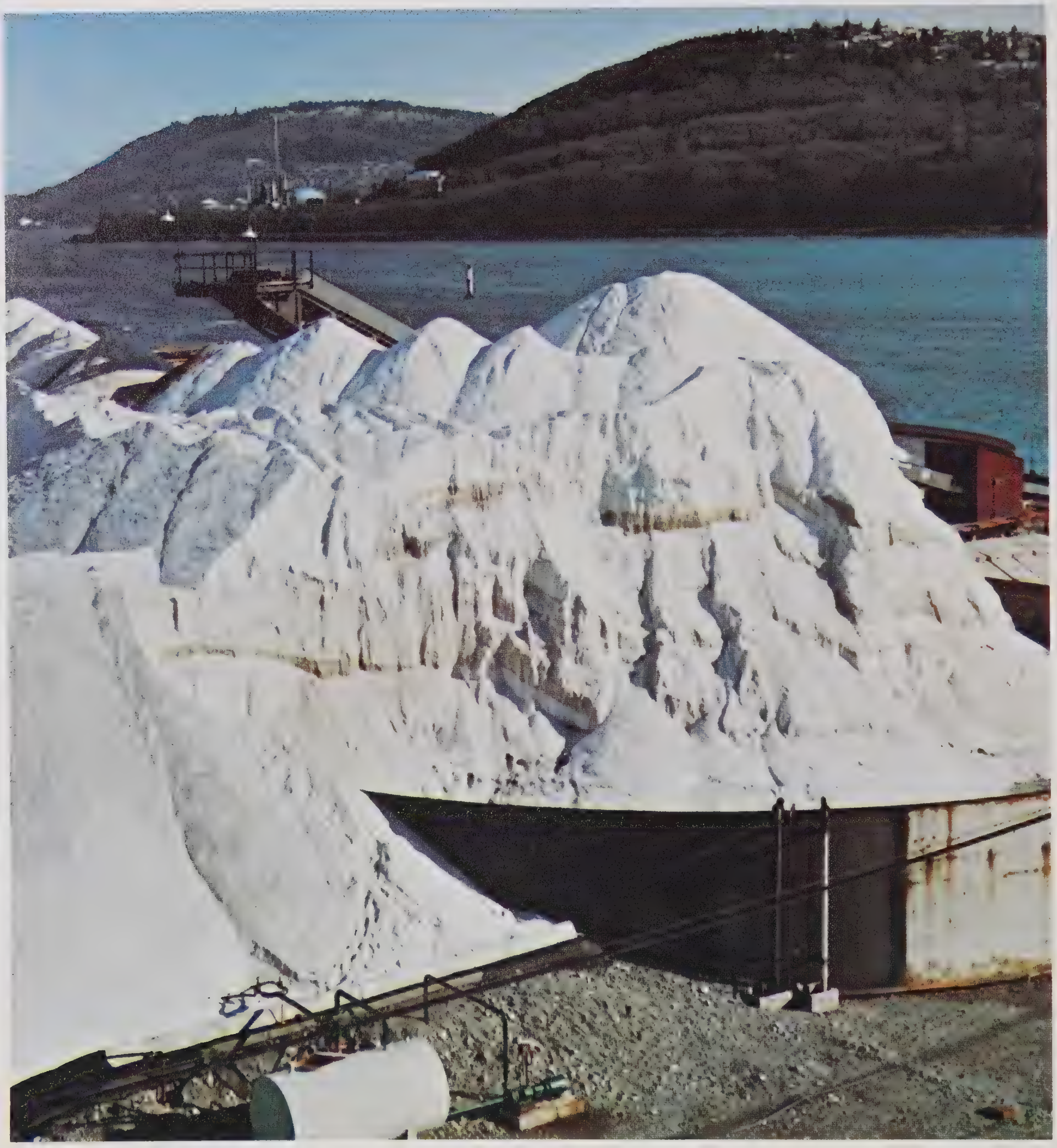
A new two-year labour agreement was negotiated at the North Vancouver plant during the year. The Nanaimo plant, owned by our wholly-owned subsidiary Hooker Chemicals (Nanaimo) Limited, was shut down for approximately 60 days in

Laboratory control — the key to quality products.

60°
70°
170°
160°
150°
140°
130°
ALASKA
Prudhoe Bay
PRINCE PATRICK I.
MELVILLE I.
BANKS ISLAND
Fairbanks
Anchorage
Inuvik
VICTORIA ISLAND
YUKON
Norman Wells
Whitehorse
NORTHWEST TERRITORIES
Yellowknife
Ft. Nelson
Ft. St. John
Peace River
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
MANIT
C
Edmonton
Petrogas
Calgary
Saskatoon
Regina
Winnipeg
Vancouver
N. Vancouver
Nanaimo
Victoria
U.S.A.
OXY
CANADIAN OCCIDENTAL PETROLEUM LTD.
Oil and Gas Properties
Plant Locations
Mining Properties
100 0 100 200 300 400
Miles

110°
100°
90°
80°
70°
60°
GREENLAND
70°
ICELAND
60°
THURST
DEVON I.
NADA
NEWFOUNDLAND
QUEBEC
ONTARIO
P.E.I.
N. B.
Fredericton
N. S.
Halifax
Montreal
Ottawa
Toronto

Bulk salt from Mexico — the prime raw material of North Vancouver chlor-alkali plant.



1973 by a labour dispute involving both our plant and the adjacent Harmac pulp mill which are connected by product pipelines. Following binding arbitration by a government appointed Industrial Inquiry Commissioner, a new two-year labour settlement was reached extending to June, 1975.

Plastics

Our subsidiary, Hooker Chemicals (Nanaimo) Limited, also owns a plastics and resin manufacturing plant at Fort Erie, Ontario. The plant manufactures phenol-formaldehyde molding compounds and industrial plastic resins, which are used to mold or fabricate a wide range of components and finished goods for the automobile, electrical, appliance, foundry, marine, container and communications industries. This plant, completed in 1970 at a cost of approximately four million dollars, attained its highest production volume and first after-tax profits in 1973.

The current high cost and limited supply of basic petrochemical raw materials such as phenol, present difficult manufacturing and marketing conditions and make it difficult to plan for continued growth and diversification in this operation.

Metal-Finishing

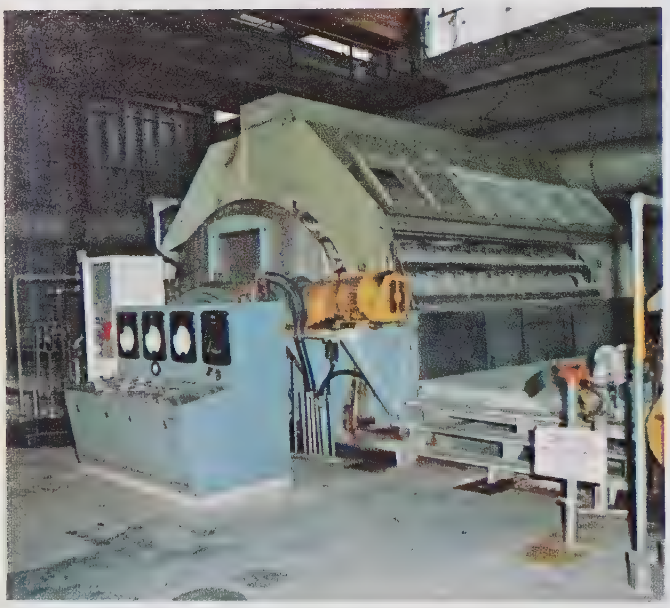
Our subsidiary, Oxy Metal Finishing of Canada Ltd., with head office and plant at Rexdale, Ontario, has two separate but complementary operations, Parker and Sel-Rex.

The Parker division has operated in Canada for over 25 years as a manufacturer and supplier of chemical products for the treating, cleaning and finishing of steel, aluminum and other metal products used in the manufacture of automobiles, metal siding, appliances, metal furniture and fixtures, electrical apparatus and other manufactured goods. The company's sales volume of these metal-finishing products increased over 13 percent during the year.

The Sel-Rex division manufactures and supplies gold and other precious metal electroplating compounds and process equipment to Canada's growing electronic and decorative jewellery industries. Sales volume of these products increased by more than 30 percent in 1973.

Finished chemical products on the move.

Pulp bleaching chemicals at work.



The Nanaimo chlor-alkali plant (foreground) and pipe line connecting with MacMillan Bloedel Harmac pulp mill.

FIVE YEAR STATISTICAL REVIEW

	1973	1972	1971	1970	1969
FINANCIAL (1)					
Revenues	$34,221	$28,505	$26,713	$23,854	$26,987
Net income (2)	$ 6,725	$ 5,310	$ 3,290	$ 2,893	$ 5,336
Per share (3)	$ 1.00	$ .79	$ .55	$ .53	$ .98
Cash flow from operations	$11,764	$ 9,682	$ 8,241	$ 5,856	$ 7,732
Per share (3)	$ 1.74	$ 1.43	$ 1.35	$ 1.07	$ 1.42
Working capital	$11,987	$10,753	$11,252	$ 8,092	$ 9,586
Capital expenditures	$31,814	$10,225	$12,213	$ 5,467	$ 6,428
Long-term liabilities	$21,559	$ 175	$ 200	$ 7,371	$ 8,778
Shareholders' equity	$78,773	$72,048	$66,738	$49,567	$46,916
OPERATING					
Proven reserves					
Pipeline gas (billions of cubic feet)	291	278	293	307	341
Crude oil and natural gas liquids (thousands of barrels)	7,255	7,680	7,934	7,340	7,590
Sulphur (thousands of long tons)	3,153	3,317	3,488	3,832	4,003
Gross production					
Pipeline gas (billions of cubic feet)	19.0	19.0	19.2	18.4	17.6
Crude oil and natural gas liquids (thousands of barrels)	831.7	840.9	692.8	601.5	405.5
Sulphur (thousands of long tons)	241.1	237.4	257.2	265.6	269.2
Well data					
Net wells — gas	28.5	27.7	23.0	19.1	16.5
Net wells — oil	22.8	20.6	21.0	12.5	16.1
Land holdings					
Gross acres (thousands of acres)	6,444.6	6,675.4	8,013.0	6,638.7	8,600.1
Net acres (thousands of acres)	4,583.6	4,950.4	6,022.7	2,579.4	3,309.5

Dollar amounts are in thousands, except for the per share data.

(1) The figures for the years 1969 to 1971, inclusive, represent the combined results of Jefferson Lake Petrochemicals of Canada Ltd. and the chemical operations conducted by Canadian subsidiaries of Occidental Petroleum Corporation which were amalgamated to form the company in 1971.

(2) Includes an extraordinary write-off in 1971 of $253,000 or 4 cents per share.

(3) Per share amounts are based on the weighted average number of shares outstanding during each year after retroactively including, for the years 1970 and 1969 2,772,727 shares issued in connection with the pooling of interest of the chemical operations and Jefferson Lake Petrochemicals of Canada Ltd.

FINANCIAL REVIEW

Earnings

Net income for the year 1973 was $6,725,000 or $1.00 per share, an increase of 27 percent over the 1972 amount of $5,310,000 or $0.79 per share. Cash flow from operations in 1973 amounted to $11,764,000 or $1.74 per share compared with $9,682,000 or $1.43 per share in the prior year.

The improved earnings for 1973 resulted from increased revenues from all operating segments of the company.

Revenues

Revenues for 1973 increased 20 percent to $34,221,000 from $28,505,000 in 1972. The contributions to revenues are summarized as follows:

	1973	1972	Increase
	(Amounts in thousands)		
Gas, crude oil, liquids and sulphur	$ 7,400	$ 6,230	$ 1,170
Chemicals	26,821	22,275	4,546
	$34,221	$28,505	$ 5,716

The increased revenues resulted primarily from higher average prices received for natural gas, crude oil, liquids and sulphur; increased sales of chlorine and caustic soda and higher sales volumes and selling prices from the plastics and metal finishing operations.

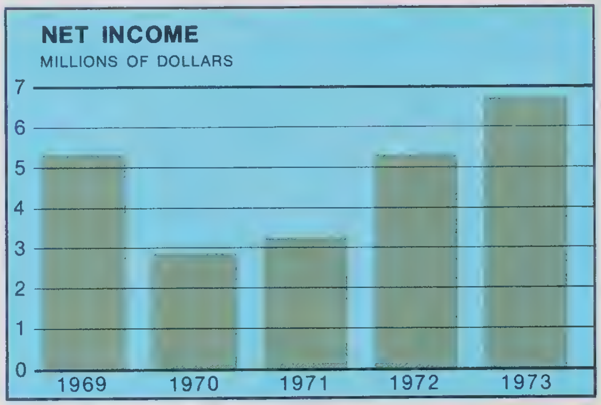
Costs and Expenses

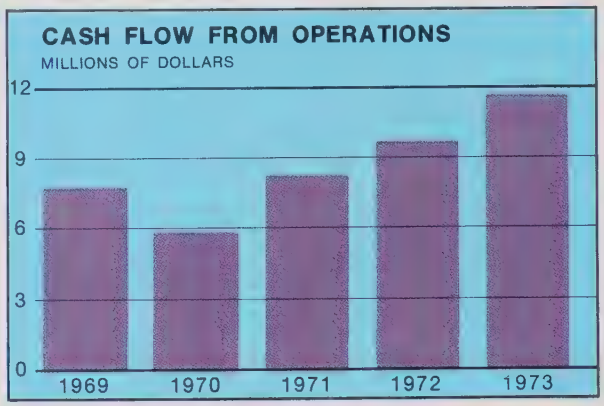
For 1973, operating costs and expenses increased $4,072,000 or 18 percent to $26,855,000 from $22,783,000 in 1972. This increase was directly related to additional manufacturing costs as a result of higher sales volumes within the chemical operations, an increase in the charge for depletion, depreciation and amortization and higher overall operating expenses due to the general inflation trend.

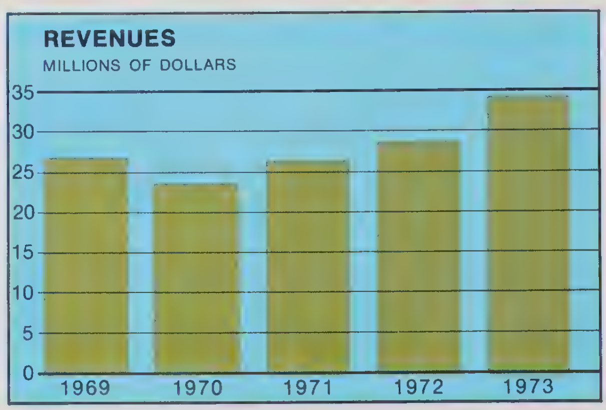
Changes in Financial Position

The company's working capital position at December 31, 1973 was $11,987,000, an increase of $1,234,000 over the previous year. Term bank loans were entered into with three Canadian chartered banks in an aggregate amount of $19,800,000 (U.S. funds) to partially finance the acquisition of interests in eleven oil and gas leases in the United States Gulf Coast-offshore Texas area on which the company spent a total of $24,737,000 (U.S. funds).

Overall capital expenditures in 1973 amounted to $31,814,000, an increase of $21,589,000 over the 1972 amount of $10,225,000. The major part of these expenditures for 1973 were within the company's oil and gas operations with the largest single expenditure being the







acquisition of the offshore Texas leases. In addition to its other capital expenditures, the company commenced an estimated four million dollar expansion of its North Vancouver, British Columbia, chlor-alkali plant which is scheduled for completion in August, 1974.

The following table sets forth a summary of capital expenditures for 1973 compared with 1972.

	1973	1972
	(Amounts in thousands)	
Oil and gas		
U.S. Gulf Coast offshore including lease acquisitions and exploration	$26,739	$ 3,219
Other oil and gas exploration and production	3,839	3,491
Total oil and gas	30,578	6,710
Mining ventures	586	653
Chemical operations	650	2,862
	$31,814	$10,225

Audit Committee

During the past year the company appointed an audit committee of the board of directors comprising the Executive Vice-President and two outside directors who are not officers of the company or any of its affiliated companies. The following directors are members of the audit committee:

J. Howard Hawke — Chairman
John M. Robertson, Q.C.
Howard B. Shelton

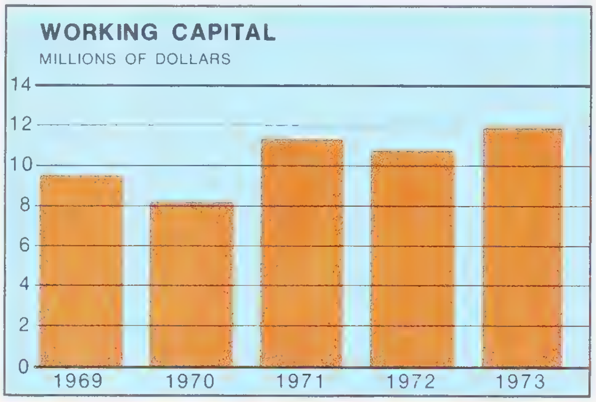
The principal functions of the audit committee are:

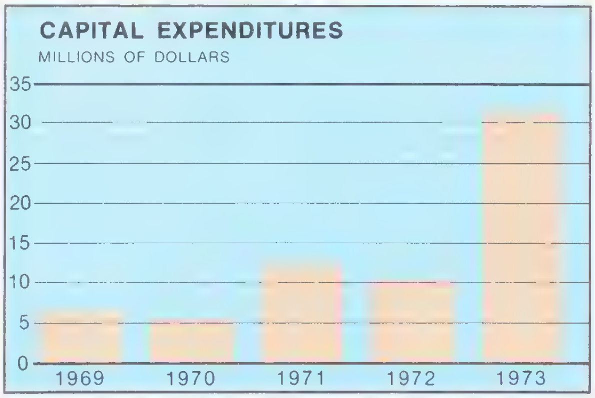
a) to recommend to the board of directors the selection of the company's independent auditors;
b) to review with the auditors the scope of the proposed audit;
c) to review the company's accounting principles, policies and practices;
d) to review the audited financial statements with the auditors prior to submission to the board of directors for its approval;
e) to review with the auditors the adequacy of the company's accounting, financial and operating controls.

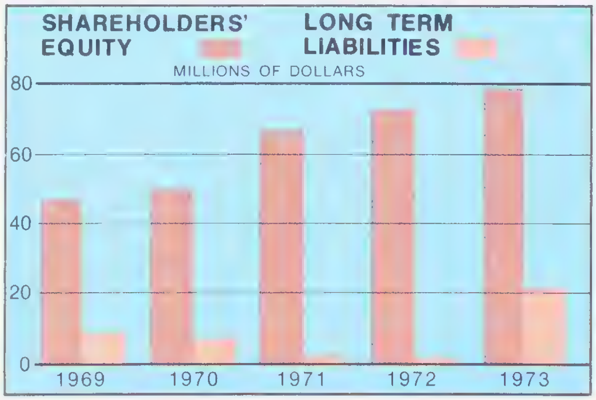
We believe that the audit committee will effectively assist the management of the company in improving its financial reporting to the shareholders.

Personnel

At December 31, 1973, the company had a total of 418 employees. The total of all salaries and wages paid including the cost of all benefit programs was approximately $5,750,000 during the year.







CONSOLIDATED BALANCE SHEET - DECEMBER 31, 1973 AND 1972

CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES

ASSETS

	1973	1972
	(Amounts in	thousands)
CURRENT ASSETS:		
Cash and demand deposits	$ 5,270	$ 6,106
Accounts receivable	6,481	4,444
Inventories (Note 1)	3,174	3,207
Prepaid expenses	320	174
Total current assets	15,245	13,931
SULPHUR INVENTORY, In Excess of One Year's Sales Volumes, at average cost	884	800
INVESTMENTS AND ADVANCES:		
Petrogas Processing Ltd. (Note 2)	5,048	4,879
Other (Note 9)	193	203
	5,241	5,082
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 1 and 3)	119,077	87,396
Less—accumulated depreciation, depletion, and amortization	32,458	27,469
	86,619	59,927
DEFERRED CHARGES	623	577
	$108,612	$ 80,317

The accompanying notes are an integral part of this balance sheet.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
	(Amounts in thousands)	
CURRENT LIABILITIES:		
Payable to affiliates	$ 227	$ 821
Accounts payable and accrued liabilities	2,819	2,006
Income taxes payable	187	326
Current portion of long term liabilities	25	25
Total current liabilities	3,258	3,178
LONG TERM LIABILITIES (Note 4)	21,559	175
DEFERRED INCOME TAXES (Note 5)	5,022	4,916
SHAREHOLDERS' EQUITY:		
Common shares, $1 par value; authorized 15,000,000 shares; outstanding 6,752,241 (Note 6)	6,752	6,752
Capital in excess of par value	33,786	33,786
Retained earnings (Note 5)	38,235	31,510
	78,773	72,048
COMMITMENTS AND CONTINGENCIES (Note 10)		
	$108,612	$ 80,317

APPROVED ON BEHALF OF THE BOARD:

Robert A. Teitsworth

ROBERT A. TEITSWORTH, Director

Howard B. Shelton

HOWARD B. SHELTON, Director

The accompanying notes are an integral part of this balance sheet.

CONSOLIDATED STATEMENT OF INCOME
CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES

For the Years Ended December 31, 1973 and 1972

	1973	1972
	(Amounts in	thousands)
REVENUES (Notes 1 and 8):		
Net sales	$ 33,703	$ 28,016
Interest and other revenues	518	489
	34,221	28,505
COSTS AND EXPENSES (Notes 8 and 9):		
Cost of products sold (Note 2)	24,533	20,563
Selling and administrative expenses	2,053	1,958
Interest expense (Note 4)	—	21
Other expenses	269	241
	26,855	22,783
INCOME BEFORE INCOME TAXES	7,366	5,722
PROVISION FOR INCOME TAXES (Note 5)	641	412
NET INCOME	$ 6,725	$ 5,310
PER COMMON SHARE (Notes 5 and 7)	$ 1.00	$ .79

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES

For the Years Ended December 31, 1973 and 1972

	1973	1972
	(Amounts in	thousands)
Retained earnings—January 1	$ 31,510	$ 26,200
Net Income	6,725	5,310
Retained earnings—December 31	$ 38,235	$ 31,510

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARY COMPANIES

For the Years Ended December 31, 1973 and 1972

	1973	1972
	(Amounts in	thousands)
FUNDS WERE PROVIDED BY:		
Net income	$ 6,725	$ 5,310
Add amounts not requiring an outlay of working capital—		
Depreciation, depletion and amortization	5,097	4,683
Other	(58)	(311)
Cash flow generated from operations	11,764	9,682
Term bank loans	19,804	—
Advance payment (Note 4)	1,605	—
Sale of property, plant and equipment	58	344
	33,231	10,026
FUNDS WERE USED FOR:		
Exploration and other capital expenditures	31,814	10,225
Reduction in long term liabilities	25	25
Other	158	275
	31,997	10,525
INCREASE (DECREASE) IN WORKING CAPITAL	$ 1,234	$ (499)
Increase (Decrease) in Current Assets—		
Cash and demand deposits	$ (836)	$ 1,172
Accounts receivable	2,037	(553)
Inventories and other	113	392
	1,314	1,011
Increase (Decrease) in Current Liabilities—		
Payable to affiliates	(594)	588
Accounts payable and accrued liabilities	813	596
Income taxes payable	(139)	326
	80	1,510
INCREASE (DECREASE) IN WORKING CAPITAL	1,234	(499)
WORKING CAPITAL—JANUARY 1	10,753	11,252
WORKING CAPITAL—DECEMBER 31	$ 11,987	$ 10,753

The accompanying notes are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements are expressed in Canadian dollars and include the accounts of the company and its wholly-owned subsidiary companies. Transactions in U.S. dollars have been translated into Canadian dollars at historical rates for non-current accounts and at year-end rates for current asset and liability items. All intercompany transactions and accounts have been eliminated on consolidation. Reclassifications have been made to certain 1972 accounts to conform with the 1973 presentation.

Net sales and net income related to the business segments of the company are as follows:

	1973			1972		
	Oil & Gas	Chemicals	Total	Oil & Gas	Chemicals	Total
	(Amounts in thousands)					
Net Sales	$6,946	$26,757	$33,703	$6,037	$21,979	$28,016
Net Income	$1,105	$ 5,620	$ 6,725	$ 617	$ 4,693	$ 5,310

The chemical operations have seven major customers and the sales to these customers are under contracts that expire at various dates until 1980. In the years 1973 and 1972 these major customers accounted for 66% and 64% respectively, of the net sales from the chemical operations.

Inventories

Inventories are valued at the lower of cost (average or first-in, first-out) or market and consist of the following:

	1973	1972
	(Amounts in thousands)	
Finished products	$1,688	$1,721
Supplies	830	834
Raw materials and work in process	656	652
	$3,174	$3,207

Depreciation

Depreciation of chemical and sulphur plants and related equipment is provided on the straight line basis using estimated useful lives. The cost of equipment retired or otherwise disposed of in the normal course of business, is charged or credited to acccumulated depreciation, after considering salvage value or proceeds from sale. Maintenance and repairs are charged to income as incurred and major renewals and betterments are capitalized.

Full Cost Method of Accounting

The company follows the full cost method of accounting whereby all costs of acquiring, carrying, exploring for and developing oil and gas reserves are capitalized, including preproduction expenses, production equipment and costs of non-producing properties. Where the costs of financing can be identified with an individual acquisition of mineral rights, the specific interest charges are capitalized until production begins (see Note 4). Provision for depletion, depreciation and amortization is computed on the unit of production method based on the estimated proven recoverable oil and gas reserves. In the calculation, barrels of crude oil are converted to equivalent cubic feet of gas on the basis of the relative net sales value of each product.

The costs of the U.S. Gulf Coast Offshore oil and gas exploratory projects are excluded from the calculation of depletion and amortization until such time as they are evaluated by drilling.

Amortization of Mining Exploration Costs

Mining exploration costs are capitalized as incurred and a regular charge for amortization is made to earnings. If a complete project is abandoned, the capitalized cost is charged to the accumulated amortization. As projects are proven, the capitalized costs will be amortized on the unit of production method using estimated recoverable mineral reserves.

NOTE 2. INVESTMENT IN PETROGAS PROCESSING LTD.

Petrogas Processing Ltd., in which the company has a 30.9% interest, was incorporated to construct and own the plant and other facilities in the East Calgary field. The costs incurred by Petrogas in processing the gas are recovered through a service charge to the various working interest owners. The company is the operator of the Petrogas facilities and in turn allocates its share of the service charge to natural gas sold and the sulphur recovered. The equity method is used to account for the investment in Petrogas Processing Ltd., with the proportionate share of earnings from such investment being included as a credit in the calculation of Cost of Products Sold.

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

	1973		1972	
	Cost	Accumulated Depreciation, Depletion and Amortization	Cost	Accumulated Depreciation, Depletion and Amortization
	(Amounts in thousands)			
Chemical plants and equipment	$ 36,477	$17,378	$35,870	$15,374
Sulphur extraction plants and equipment	2,400	1,350	2,374	1,242
Mining exploration and equipment	1,355	378	787	154
Oil and gas properties—				
U.S. Gulf Coast Offshore leasehold interests and exploration costs	29,958	—	3,219	—
Other leasehold interests, contract rights, development and exploration costs	46,819	12,749	43,201	10,210
Well, lease and other equipment	2,068	603	1,945	489
	$119,077	$32,458	$87,396	$27,469

Note 1 summarizes the depreciation, depletion, and amortization policies and other related matters. As discussed in Notes 1 and 4, the costs associated with the U.S. Gulf Coast Offshore exploration projects (including capitalized interest charges in 1973) are excluded from the calculation of depreciation, depletion and amortization.

NOTE 4. LONG TERM LIABILITIES

	1973	1972
	(Amounts in thousands)	
Term bank loans maturing February 18, 1975 (U.S. $19,800,000 recorded at exchange rate in effect at date of receipt)	$19,804	$—
Advance payment agreement	1,605	—
Ontario Development Corporation Loan, due or forgivable in 1976	175	200
	21,584	200
Less: Amount due within one year, included in Current Liabilities	25	25
TOTAL LONG TERM LIABILITIES	$21,559	$175

Term bank loans totalling $19,800,000 (U.S.) and maturing February 18, 1975, were arranged with three Canadian chartered banks to help finance the purchase of certain U.S. Gulf Coast Offshore leases. The interest rate for these loans is adjustable during their term to 1% in excess of the London Interbank offered rate for U.S. dollars, subject to certain options as to term open to the borrower and at December 31, 1973 averaged 11.17%. The interest cost of $1,035,000 related to these loans has been capitalized and offset by interest from investing the Advance Payment referred to below and by charges made to Occidental Petroleum Corporation discussed in Note 8. These credits totalled $166,000 in 1973 resulting in net interest charges of $869,000 being capitalized. No interest was capitalized in 1972.

An advance payment of $1,605,000 (U.S.) related to the U.S. Gulf Coast Offshore leases was received from Transcontinental Gas Pipe Line Corporation during 1973 and is repayable without interest over a five year period. The commencement of such repayments is dependent on the outcome and timing of the exploratory work now underway.

The Ontario Development Corporation Loan is non-interest bearing and forgivable at the rate of $25,000 on December 1, 1974 and 1975, and $125,000 on December 1, 1976.

In 1965, some restrictions were placed on the company's ability to incur certain types of funded debt, under the terms of certain notes issued by Occidental Petroleum Corporation. The debt at December 31, 1973 and 1972 did not contravene these restrictions.

NOTE 5. INCOME TAXES

For income tax purposes, capital cost allowances (depreciation) and exploration and development costs (including drilling and lease acquisition expenditures), may be claimed in amounts exceeding the related items charged to expense in the financial accounts. The income taxes charged in the statement of income have been computed on the tax allocation basis except that no provision has been made for income taxes deferred by claiming exploration and development costs in excess of the amounts charged to expense in the financial accounts; tax allocation for such deferrals is not generally applied in the Canadian oil and gas industry. Canadian Occidental Petroleum Ltd. had no taxable income for the years 1973 and 1972 as a result of deducting exploration and development costs. Certain subsidiaries paid income taxes for those two years.

The Provincial Securities Commissions have issued statements that may require tax allocation with respect to exploration, development and lease acquisition costs for fiscal periods ending in the first quarter of 1974. Members of the Canadian oil and gas industry are presently completing a study proposing an alternative to the income tax allocation requirements of the Canadian Institute of Chartered Accountants, with respect to exploration, development and lease acquisition costs.

If the tax allocation basis had been followed for exploration and development costs, the deferred income tax provisions would have been $2,800,000 for 1973 and $2,200,000 for 1972 and net income per common share would have been reduced by $.42 in 1973 and $.33 in 1972. The accumulated deferred income taxes not recorded in the accounts approximated $13,000,000 as of December 31, 1973.

As of December 31, 1973, approximately $27,800,000 of drilling, exploration and lease acquisition costs remain to be applied against future taxable income; of this amount, $22,500,000 pertains to expenditures made outside Canada.

The provision for income taxes of $641,000 in 1973 and $412,000 in 1972 represent effective rates of 8.7% and 7.2% of income before income taxes. The following table reconciles the difference

between the provision for income taxes and the notional tax expense obtained by applying the notional rate of 51%:

	1973	1972
	(Amounts in thousands)	
Notional tax expense 51% of income before income taxes	$3,757	$2,918
51% of exploration and development costs claimed for tax purposes in excess of amounts expensed in financial statements	(2,800)	(2,200)
Effect of reduced rate of taxation on oil and gas income (33%) and manufacturing income (40%)	(619)	(87)
Other	303	(219)
Provision for income taxes	$ 641	$ 412

Based upon currently anticipated expenditures and operations, it is not expected that cash outlays for income taxes will substantially exceed the income tax provisions with respect to the three fiscal years subsequent to 1973.

NOTE 6. CAPITAL STOCK AND STOCK OPTIONS

Under the stock option plan, options granted to certain officers and employees are contingent upon continued employment and are exercisable on a cumulative basis over a period of five years from the date of grant.

At December 31, 1973, 39,780 shares were reserved for issuance under outstanding options at prices of $9.75, $10.13, $11.13, and $11.38 per share. During 1973, options for 18,361 shares were granted, and options for 13,875 shares were exercisable at $10.13, $11.13, and $11.38 per share. No options were exercised during 1973 and 1972.

NOTE 7. NET INCOME PER COMMON SHARE

The net income per common share has been calculated on the basis of the 6,752,241 common shares outstanding during the years 1973 and 1972. Exercise of all outstanding options would have no material effect on the per share calculations.

NOTE 8. INTERCOMPANY TRANSACTIONS

Occidental Petroleum Corporation and subsidiaries render advisory and counselling services, of a routine nature, to the Company and its subsidiaries consisting primarily of technical, research, administrative and marketing services. The cost of these services amounted to $785,000 in 1973 and $851,000 in 1972. In addition, specialized services, other than of a routine nature, (engineering and technical consultation for new construction, modifications and process improvements) are also rendered and the costs of these services were $186,000 in 1973 and $476,000 in 1972.

Also, the chemical operations of the company periodically purchase materials from and sell materials to Hooker Chemical Corporation (a subsidiary of Occidental Petroleum Corporation). During 1973, purchases amounted to $2,337,000 compared with $2,157,000 in 1972, and sales were $704,000 in 1973 and $1,699,000 in 1972. These purchases and sales were at competitive prices.

The company, through a credit line agreement, charged Occidental Petroleum Corporation with the differential between the average interest rate on the term bank loans and 5½% on a portion

of the loans. This portion was $4,250,000 prior to August 1, 1973 and $4,000,000 thereafter. The total charge for this item was $106,000 in 1973 and was credited to the Property, Plant and Equipment account.

NOTE 9. DIRECTORS AND OFFICERS

	1973	1972
Number of directors (including past directors)	13	12
Remuneration as directors	$ 23,100	$ 11,800
Number of officers (including past officers)	9	10
Remuneration as officers	$218,500	$231,000
Number of officers who are directors	2	2

Included in other investments are advances to an officer under the executive stock-purchase plan. The advances are evidenced by two 5% promissory notes ($86,000 and $20,000, both due May 1975) which are collateralized by 5,000 shares of the company. The sole remedy for non-payment is foreclosure on the collateral with no deficiency judgment being recoverable. The quoted market value of the collateral at February 8, 1974 approximated $60,600.

NOTE 10. CONTINGENCIES

The company may be required under certain conditions to make payments under guarantee arrangements in connection with the issuing of non-interest bearing demand promissory notes deposited with the Federal or Provincial governments. The notes are held as work performance deposits in respect of exploratory rights and the contingent liability under such arrangement does not exceed $709,000.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
CANADIAN OCCIDENTAL PETROLEUM LTD.:

We have examined the consolidated balance sheet of Canadian Occidental Petroleum Ltd. (a Canada corporation and an 82% owned subsidiary of Occidental Petroleum Corporation) and subsidiary companies as of December 31, 1973 and 1972 and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Canadian Occidental Petroleum Ltd. and subsidiary companies as of December 31, 1973 and 1972, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Calgary, Canada
February 9, 1974

ARTHUR ANDERSEN & CO.
CHARTERED ACCOUNTANTS

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CANADIAN OCCIDENTAL PETROLEUM LTD.
(a Canadian Corporation)

HEAD OFFICE
1000 Calgary House
550 Sixth Avenue Southwest
Calgary, Alberta, Canada T2P 0S3

KEY PERSONNEL
Head Office
- W. W. Chalmers, Director of Sulphur Marketing
- D. F. Christensen, Mgr. Exploration
- D. C. Gordon, Chief Geophysicist
- G. D. Meades, Mgr. Accounting
- J. Meronek, Purchasing Agent
- C. R. Mikkelborg, Mgr. Land
- R. H. Orthlieb, Mgr. of Economic Planning
- N. R. Richards, Mgr. Treasury
- C. K. Stackhouse, Mgr. Personnel

Hooker Chemicals Division
100 Amherst Avenue,
North Vancouver, British Columbia
L. H. Schnurstein, General Manager

Minerals Division
Suite 801,
161 Eglinton Avenue, East,
Toronto, Ontario
Dr. J. J. Brummer, Manager

Peace River Plant
Taylor, British Columbia
J. Shaw, Plant Superintendent

SUBSIDIARY COMPANIES
Oxy Metal Finishing of Canada Ltd.
(a Canadian corporation)
Plant and Head Office
165 Rexdale Boulevard,
Rexdale, Ontario
R. I. Peterson - Vice-President & General Mgr.

Hooker Chemicals (Nanaimo) Limited
(a British Columbia corporation)
Chlor-alkali plant
Nanaimo, British Columbia
C. N. Hopkins - Works Mgr.

Plastics plant
Dunlop Street, Fort Erie, Ontario
Wayne Wentzell - General Mgr.

Canadian Occidental of California, Inc.
(a California corporation)

Jefferson Minerals Corporation
(a Delaware corporation)

AFFILIATED COMPANY
Petrogas Processing Ltd.
Balzac, Alberta
W. J. van der Linden, Plant Superintendent

TRANSFER AGENTS
National Trust Company, Limited
Calgary, Toronto, Montreal, Winnipeg and Vancouver

The First National City Bank
New York, N.Y.

REGISTRARS
National Trust Company, Limited
Calgary, Alberta

The Chase Manhattan Bank
New York, N.Y.

AUDITORS
Arthur Andersen & Co.
Calgary, Alberta, Canada

SHARES LISTED
American Stock Exchange
Toronto Stock Exchange

OXY

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PETROLEUM LTD.
ANNUAL REPORT 1973

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